



First National Lincoln Corporation

Board of Directors

Robert B. Gregory
Chairman of the Board
Katherine M. Boyd
Daniel R. Daigneault
Tony C. McKim
Randy A. Nelson
Carl S. Poole, Jr.
Mark N. Rosborough
Stuart G. Smith
David B. Soule, Jr.
Bruce B. Tindal

Executive Officers

Daniel R. Daigneault
President & Chief Executive Officer
Tony C. McKim
Executive Vice President & Chief Operating Officer
F. Stephen Ward
Executive Vice President & Chief Financial Officer
Charles A. Wootton
Executive Vice President & Clerk

Corporate Counsel

Pierce Atwood
Portland, Maine

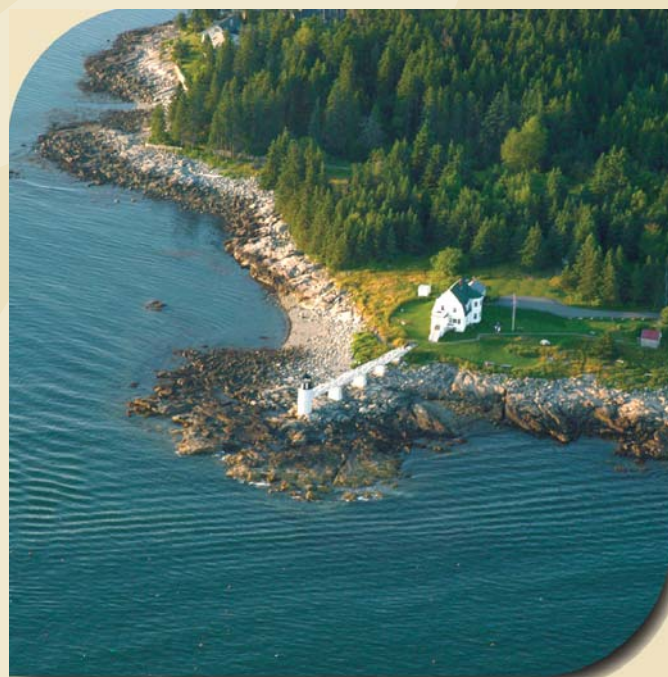
Independent Auditors

Berry, Dunn, McNeil & Parker
Portland, Maine

First National Lincoln Corporation
P.O. Box 940, Damariscotta, Maine 04543
207.563.3195



Second Quarter 2006
Financial Results



First National Lincoln Corporation

July 31, 2006

Dear First National Lincoln Corporation Shareholder:

I am pleased to report the cash dividend for the second quarter of 2006 is \$0.15 per share. This dividend is an increase over the \$0.145 per share declared in the first quarter of 2006 and represents the highest quarterly dividend paid by First National Lincoln Corporation. This results in an annualized dividend of \$0.60 per share and a dividend yield of 3.57% based on the closing price of \$16.83 for FNLC shares on June 30, 2006. The Company has now raised its dividend for 13 consecutive years.

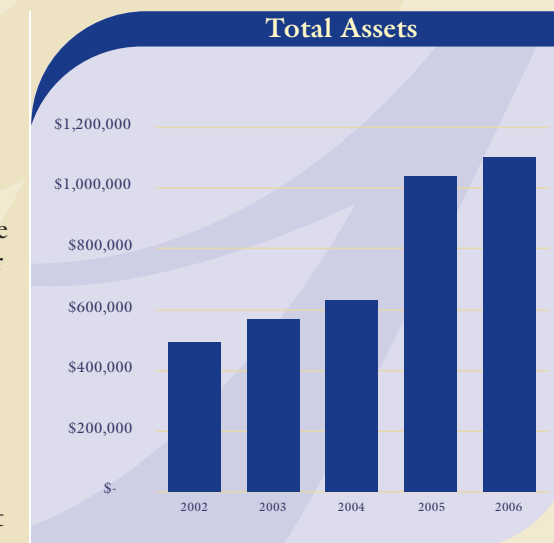
The Company posted unaudited second quarter earnings of \$3,172,000, an increase of \$39,000 or 1.2% over the \$3,133,000 earned in the second quarter of 2005. For the first six months of 2006, the Company recognized net income of \$6,148,000, an increase of \$18,000 over the \$6,130,000 posted in the first half of 2005. Earnings per share were \$0.62 on a fully diluted basis for the six months ended June 30, 2006, even with the \$0.62 reported for the same period in 2005. Although net income was basically flat compared to the same period in 2005, I feel this is still a positive accomplishment given the challenging economy and interest rate scenario we are experiencing in 2006.

The current flat yield curve and short-term rate increases by the Federal Reserve Bank continues to create a very challenging environment for most banks. While the Company has had excellent growth in earning assets in 2006, increasing \$59.4 million or 6.2% year-to-date, at the same time our liability costs have increased more rapidly than our yield on assets. This has led to a decline in net interest income as a result of margin compression, with our net interest margin declining to 3.21% for the second quarter of 2006, compared to 3.46% for the first quarter of 2006 and 3.87% for the second quarter of 2005. To mitigate the impact of margin compression, we have focused on revenue growth and cost control. Revenue growth can be seen in non-interest income, which is up 13.9% or \$542,000 for the first six months of 2006 compared to the same period in 2005. On the cost side, operating expenses for the first half year of 2006 are \$126,000 or 1.2% less than the first six months of 2005.

I am also pleased to report that asset quality remains strong with past due loans and loan losses at continued low levels. In addition the loan portfolio has shown strong growth in the first half of 2006 with total loans increasing \$53.4 million or 6.9% year-to-date. On behalf of the Board of Directors and our employees, I thank you for your continued support for First National Lincoln Corporation and The First, N.A.

Very truly yours,

Daniel R. Daigneault
President & Chief Executive Officer



Consolidated Balance Sheets *(unaudited)*

<i>Dollars in thousands</i>	June 30, 2006	December 31, 2005	June 30, 2005
Assets			
Cash and due from banks	\$ 22,606	\$ 25,982	\$ 22,080
Overnight Funds Sold	-	-	-
Securities Available for sale	50,486	54,743	52,348
Securities to be Held to maturity (fair value \$136,317 at 6/30/06, \$128,563 at 12/31/05, and \$108,639 at 6/30/05)	139,232	129,238	107,693
Loans held for sale (fair value approximates cost)	240	-	412
Loans	825,699	772,338	718,376
Less allowance for loan losses	6,021	6,086	6,518
Net loans	819,678	766,252	711,858
Accrued interest receivable	6,904	5,005	5,492
Bank premises and equipment	16,285	16,712	16,949
Other real estate owned	1,413	-	-
Goodwill	27,684	27,684	27,960
Other assets	16,055	16,593	13,780
Total assets	\$ 1,100,583	\$1,042,209	\$ 958,572
Liabilities			
Demand deposits	\$ 60,941	\$ 62,109	\$ 56,421
NOW deposits	102,618	109,124	106,105
Money market deposits	110,313	127,630	110,463
Savings deposits	99,176	109,615	111,990
Certificates of deposit	161,418	125,741	127,708
Certificates \$100,000 and over	252,495	179,745	159,567
Total deposits	786,961	713,964	672,254
Borrowed funds	196,649	215,189	177,729
Other liabilities	11,343	9,604	8,017
Total liabilities	994,953	938,757	858,000
Shareholders' equity			
Common stock	99	99	99
Additional paid-in capital	46,917	47,718	48,220
Retained earnings	58,202	54,901	50,773
Net unrealized gains on available-for-sale securities	412	734	1,480
Treasury stock	-	-	-
Total stockholders' equity	105,630	103,452	100,572
Total liabilities & stockholders' equity	\$ 1,100,583	\$ 1,042,209	\$ 958,572
Number of shares authorized	18,000,000	18,000,000	18,000,000
Number of shares issued and outstanding	9,817,897	9,832,777	9,819,801
Book value per share	\$ 10.76	\$ 10.52	\$ 10.24
Allowance for loan losses/total loans	0.73%	0.79%	0.91%
Non-performing assets to total assets	.23%	0.30%	.26%

Consolidated Statements of Income *(unaudited)*

<i>Dollars in thousands</i>	For six months ended June 30,		For the quarters ended June 30,	
<i>except per share amounts</i>	2006	2005	2006	2005
Interest income				
Interest and fees on loans	\$ 25,910	\$ 19,462	\$ 13,403	\$ 10,377
Interest on deposits with other banks	-	5	-	5
Interest and dividends on investments	4,735	3,724	2,430	1,912
Total interest income	30,645	23,191	15,833	12,294
Interest expense				
Interest on deposits	11,053	5,067	5,933	2,856
Interest on borrowed funds	4,350	2,715	2,405	1,474
Total interest expense	15,403	7,782	8,338	4,330
Net interest income	15,242	15,409	7,495	7,964
Provision for loan losses	600	100	350	100
Net interest income after provision for loan losses	14,642	15,309	7,145	7,864
Other operating income				
Fiduciary income	973	819	477	420
Service charges on deposit accounts	1,350	1,151	728	663
Mortgage origination and servicing income	252	375	169	247
Other operating income	1,858	1,546	986	898
Total other operating income	4,433	3,891	2,360	2,228
Other operating expenses				
Salaries and employee benefits	5,170	5,474	2,508	2,848
Occupancy expense	757	697	382	348
Furniture and equipment expense	997	1,035	492	581
Amortization of identified intangibles	142	129	71	70
Other	3,450	3,307	1,628	1,889
Total other operating expenses	10,516	10,642	5,081	5,736
Income before income taxes	8,559	8,558	4,424	4,356
Applicable income taxes	2,411	2,428	1,252	1,223
Net income	\$ 6,148	\$ 6,130	\$ 3,172	\$ 3,133
Earnings per common share				
Basic earnings per share	\$ 0.62	\$ 0.63	\$ 0.32	\$ 0.32
Diluted earnings per share	0.62	0.62	0.32	0.31
Cash dividends declared	0.295	0.255	0.150	0.130
Closing market price per share	16.83	17.00	16.83	17.00
Financial ratios				
Return on average tangible equity ¹	16.07%	17.59%	16.42%	17.44%
Return on average assets ¹	1.17%	1.37%	1.19%	1.33%
Net interest margin tax-equivalent ¹	3.33%	3.92%	3.21%	3.87%
Dividend payout ratio	47.58%	40.48%	46.88%	40.63%
Efficiency ratio	50.80%	52.26%	48.99%	53.33%

¹Quarterly results have been annualized using a 365-day basis